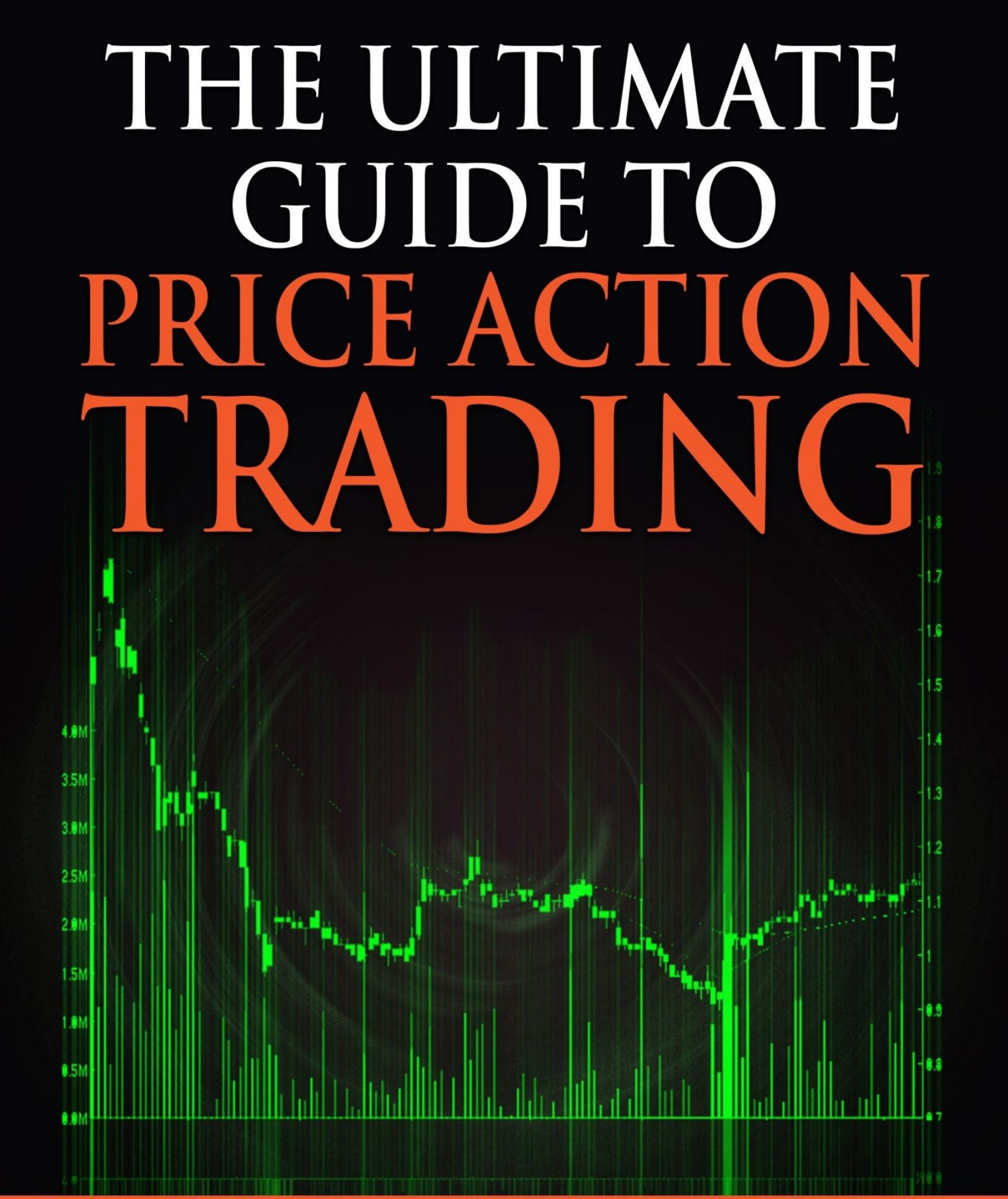
THE ULTIMATE GUIDE TO PRICE ACTION TRADING



RAYNER TEO

CONTENTS

Dedication **4**

About The Author **5**

What Moves The Market? **6**

Everything You Need To Know About Support & Resistance **8**

Support & Resistance 8

Role Reversal 9

Dynamic Support & Resistance 11

Impulse & Corrective Moves 12

The 4 Stages Of The Markets Every Serious Trader Must Know **14**

Stage 1: The Accumulation Phase 14

Stage 2: Advancing Phase 15

Stage 3: Distribution Phase 16

Stage 4: Declining Phase 17

How To Tell When The Market Is Trending **18**

Structure Of The Markets 19

Moving Average 20

How To Tell When The Market Is Ranging **22**

Range Expansion 22

Range Contraction 23

How To Read The Price Action Of Any Markets **24**

The Slope Of Impulse Moves Getting Flatter 24

Candlestick Bodies Getting Smaller On Impulse Moves 25

The Slope Of Corrective Moves Getting Steeper 25

Candlestick Bodies Getting Larger On Corrective Moves 26

Example 2: 27

Example 3: 28

Forget Memorizing Candlestick Patterns, You Only Need To Know These 4 Things **30**

Wick 30

Length Of The Wick 31

Size Of The Candle 32

Close Of The Body 33
Advanced Candlestick Knowledge (That Nobody Talks About) 34
Pinbar 35
Inside Bar 40
Rising Three Method 44
Wide Range Of Candles 46
Narrow Range Candles 47
A Price Action Trading Strategy To Capture Momentum And Ride Trends 49
Inside Bar Trading Strategy 49
Guidelines: 50
Further Considerations To Ask Yourself: 50
Final Words From Rayner 51
How Much You Succeed Is All Up To You 51
Rome Wasn't Built In A Day 51
Don't Be Afraid To Ask For Help 51
Thank You So Much! 52

DEDICATION

This guide is dedicated to all traders out there, young and old. You are awesome and I'll see you on the battlefield.

The information contained in this guide is for informational purposes only.

I am not a financial advisor.

Any legal or financial advice I give is my opinion based on my own experience. You should always seek the advice of a professional before acting on something I have published or recommended.

Please understand that there are some links contained in this guide that I may benefit from financially.

No part of this publication shall be reproduced, transmitted or sold in whole or in part, or any form, without the prior written consent of the author.

Users of this guide are advised to do their own due diligence when it comes to making business decisions and all information, products, and services that have been provided should be independently verified by your own qualified professionals.

By reading this guide, you agree that I and my company is not responsible for the success or failure of your business decisions relating to any information presented in this guide.

ABOUT THE AUTHOR

You've probably found your way to this guide from my website, or maybe a friend passed it along to you. Either way, I'm happy you're here.

I created this guide because I feel that every trader should learn how to read the price action of the markets.

By learning how to read price action, you can better time your entries, reduce your risk, and improve your trading performance.

Tradingwithrayner and this guide are my way of giving back for all the fortunate things that have happened to me.

This guide lays the foundation to price action trading. It is not a "system" and definitely not a "get rich quick" scheme.

I've given you a trading strategy as well just to get you started. If it can help just one person to get closer to being a consistently profitable trader, then the month I've spent writing this trading guide will have been totally worth it.

To all my subscribers, followers and friends out there, old and new, thank you for the gift of support. I only hope this trading guide can begin to repay you for all the time and attention you've given me. Here's to you and your continued success!

Rayner Teo

WHAT MOVES THE MARKET?

It's not because there are more buyers than sellers.

It's not because of support & resistance.

It's because of buying and selling pressure.

Imagine:

I want to sell 1 million shares of "Apple."

And, at the same time, there are 10 buyers wanting to buy 100 shares of "Apple" each. In total, their buying pressure is 1,000 shares.

Now, compare this with the selling pressure of 1 million shares from me.

Where do you think the price is headed?

Down.

Why?

Because there's more selling pressure than buying pressure. And not because there are more sellers than buyers!

In this case, there is one seller (which is me) against 10 buyers, but the price is still heading lower.

The takeaway is this...

Price goes up because there's more buying pressure than selling pressure.

And the price goes down because there's more selling pressure than buying pressure.

You can call this price action trading, order flow of the market, supply & demand, etc. But let's stick to price action trading.

So, here's what you'll learn:

- Everything you need to know about Support & Resistance
- The 4 stages of the market every serious trader must know
- How to tell when the market is trending
- How to tell when the market is ranging

- How to read the price action of any markets (and determine the strength and weakness of it)
- Forget about memorizing candlesticks, you only need to know these 4 things
- Advanced candlestick knowledge that nobody talks about
- A price action trading strategy to capture momentum and ride trends
- Price action trading resources

EVERYTHING YOU NEED TO KNOW ABOUT SUPPORT & RESISTANCE

They are:

1. Support & Resistance
2. Role reversal
3. Dynamic Support & Resistance
4. Impulse & corrective moves

Let's begin.

SUPPORT & RESISTANCE

Support – An area on the chart with potential buying pressure to push the price higher.

Resistance - An area on the chart with potential selling pressure to push the price lower.

Here are a few examples:

Remember...

...Support & Resistance is not a single line, but an area on the chart.

And when price breaks Support & Resistance, a role reversal occurs.

ROLE REVERSAL

Simply put...

If the price breaks below support, previous support becomes resistance.

If the price breaks above resistance, previous resistance becomes support.

Here's what I mean...

Now:

You've just learned what Support & Resistance are, and their role reversal with one another.

This is "static" Support & Resistance, where their areas are fixed on the chart.

But wait, that's not all...

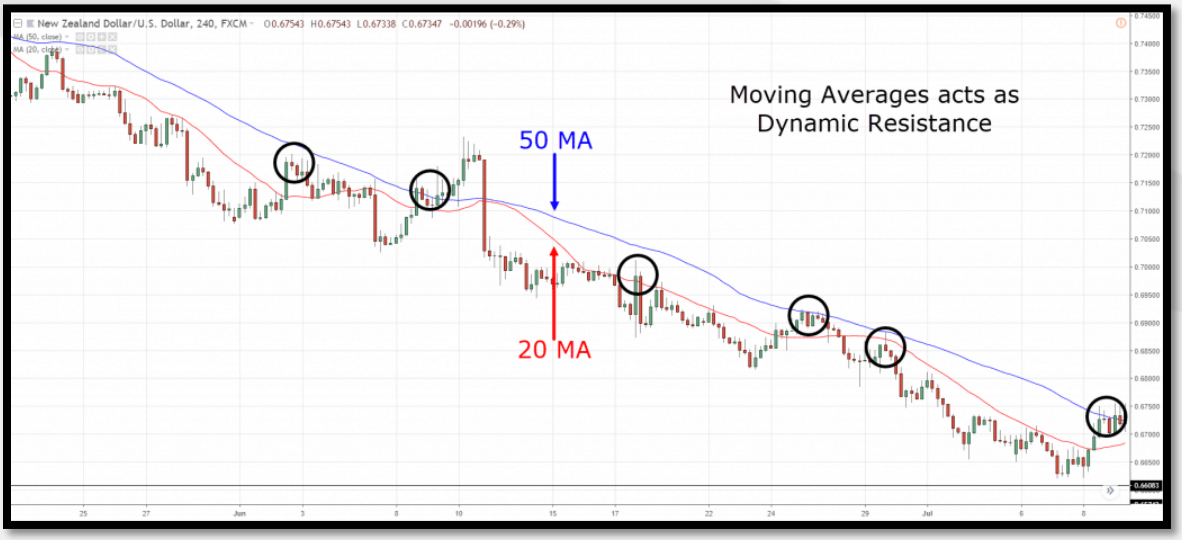
DYNAMIC SUPPORT & RESISTANCE

Support & Resistance can also move along with price, which is called Dynamic Support & Resistance.

Dynamic support occurs in an uptrend and dynamic resistance in a downtrend.

They can be identified using moving averages (I use 20 & 50 EMA).

This is what I mean...



You're wondering:

Rayner, is there anything special about 20 & 50 EMA?

The answer is no. I use it because it fits my trading style. Ultimately you need to find something that suits you.

Indicators are simply trading tools. It's how you use them that makes a difference.

IMPULSE & CORRECTIVE MOVES

Markets don't move in one straight line.

There's an ebb and flow to it. And this process contains impulse & corrective moves.

Wait, what's that?

Impulse move - "Longer leg" on the chart, which points towards the direction of the trend. Candlestick size is usually larger, signaling momentum behind the move.

Corrective move - "Shorter" leg on the chart, which is against the current trend. Candlestick size is usually smaller because of traders taking profits, without strong pressure.

Here are a few examples:

Here's a tip for you...

You can trade pullback on a corrective move, and breakout on the impulse move.

Depending on your trading style, both approaches let you get on board with the trend.

Now, let's move onto to the next section...

THE 4 STAGES OF THE MARKETS EVERY SERIOUS TRADER MUST KNOW

The markets are always changing. It moves from a period of a trend to range, and range to trend.

You can break it down further into 4 stages:

- Accumulation
- Advancing
- Distribution
- Declining

STAGE 1: THE ACCUMULATION PHASE

Accumulation usually occurs after a fall in prices, and it looks like a consolidation period.

Characteristics of an accumulation phase:

- It usually occurs when prices have fallen over the last 6 months or more
- It looks like a long period of consolidation during a downtrend
- The 200-day moving average tends to flatten out after a price decline
- Price tends to whip back and forth around the 200-day moving average

It looks something like this:

STAGE 2: ADVANCING PHASE

After the price breaks out of the accumulation phase, it goes into an advancing phase (an uptrend).

Characteristics of the advancing phase:

- It usually occurs after the price breaks out of the accumulation phase
- The price forms a series of higher highs and higher lows
- Short term moving averages are above long-term moving averages (e.g., 50 above 200-day ma)
- The 200-day moving average is pointing higher
- The price is above the 200-day moving average

It looks something like this...

STAGE 3: DISTRIBUTION PHASE

Distribution usually occurs after a rise in prices, and it looks like a consolidation period.

Characteristics of the distribution phase:

- It usually occurs when prices have risen over the last 6 months or more
- It looks like a long period of consolidation during an uptrend
- The 200-day moving average tends to flatten out after a price decline
- The price tends to whip back and forth around the 200-day moving average

It looks something like this:

STAGE 4: DECLINING PHASE

After price breaks down as a result of the distribution phase, it goes into a declining phase (a downtrend) and consists of lower highs and lows.

This is the stage where traders who do not cut their losses become long term investors.

Characteristics of the declining phase:

- It usually occurs after the price breaks out of a distribution phase
- The price forms a series of lower highs and lower lows
- Short term moving averages are below long-term moving averages (e.g. 50 below 200-day ma)
- The 200-day moving average is pointing lower
- The price is below the 200-day moving average

It looks something like this...

So, you've learned what the 4 stages of the market are, and the key characteristics to look out for.

Now, let's move onto the next section...

HOW TO TELL WHEN THE MARKET IS TRENDING

There's a famous Wall Street saying that goes like this...

Question: What is the trend of the market?

Answer: What is your time frame?

You're wondering:

What does this mean?

This means there are trends in different time frames. You can have a downtrend on a 5-minute chart and an uptrend on a daily chart. Here's an example...

So, now you understand that trends can exit on different time frames.

Now... let's learn how to define a trend objectively.

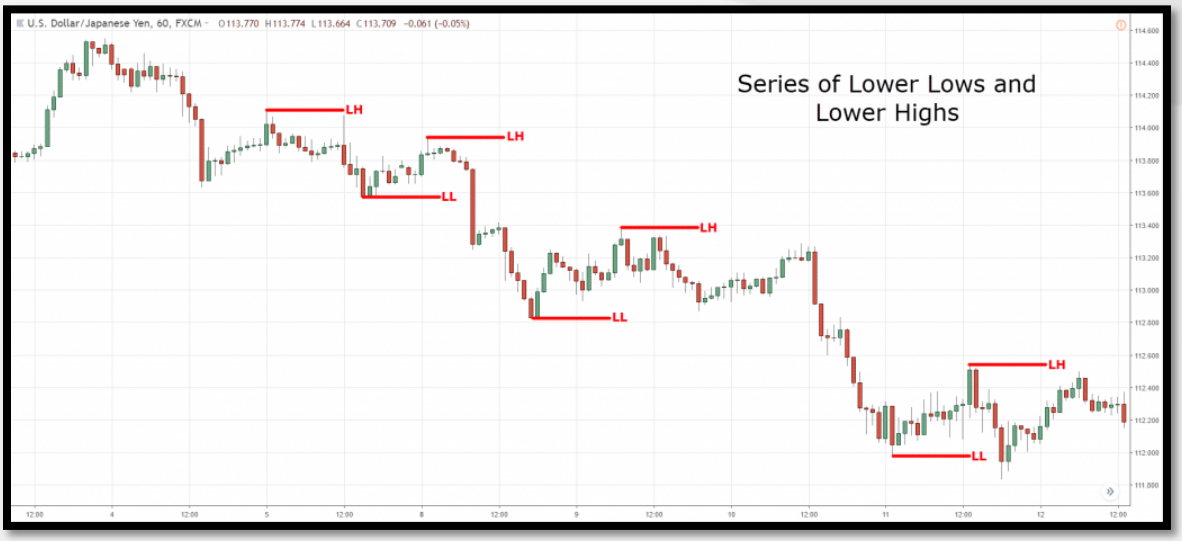
There are two ways you can go about doing this:

- Structure of the markets
- Moving average

STRUCTURE OF THE MARKETS

The market is in an uptrend when there's a series of higher highs and higher lows.

Likewise, in a downtrend, there's a series of lower highs and lower lows.



MOVING AVERAGE

Alternatively, you can use a moving average to define the trend.

Here's how you can do this:

- 20 ma - Short term trend
- 100 ma – Medium term trend
- 200 ma - Long term trend

If 20 MA is pointing higher and the price is above it, then the short-term trend is up.

If 100 MA is pointing higher, and the price is above it, then the medium-term trend is up.

If 200 MA is pointing higher, and the price is above it, then the long term trend is up.

Let's look at a few examples:

If you want to learn more, go watch this training video here.

Now, let's learn how to identify a range market...

HOW TO TELL WHEN THE MARKET IS RANGING

A range market is contained between Support & Resistance.

A textbook example looks something like this:

Now, before the light bulb in your head goes off with "buy low and sell high," I want you to see the reality of trading range markets.

Because, in the real world, you get variations like:

- Range expansion
- Range contraction

RANGE EXPANSION

This occurs when the market does a false breakout and trades back into the range, thus expanding the "space" between Support & Resistance.

Selling at resistance would get you stopped out as the price breaks above the resistance only to trade back into the range.

An example:

RANGE CONTRACTION

This occurs when the market enters a period of low volatility, usually due to an impending news release.

Looking to "buy low sell high" would put you on the sidelines, as the markets go into a tighter consolidation.

Here's what I mean:

Personally, I find range expansion and contraction one of the hardest markets to trade, and I usually stay out of it. Now, let's move onto something interesting...

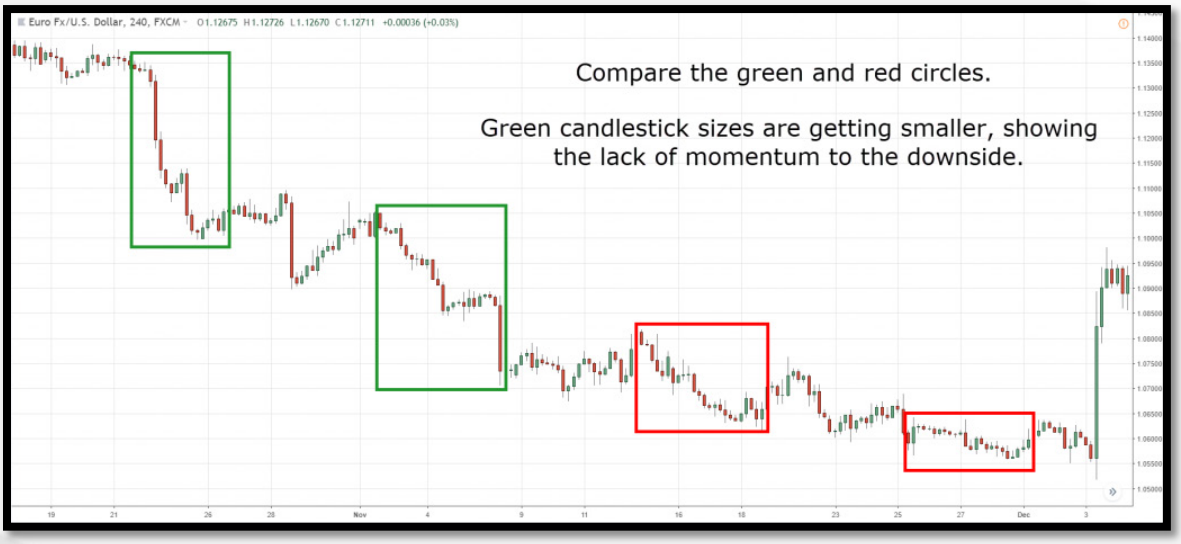
HOW TO READ THE PRICE ACTION OF ANY MARKETS (AND DETERMINE THE STRENGTH AND WEAKNESS OF IT)

Here are the things I look out for:

- The slope of the impulse move getting flatter
- Candlestick bodies getting smaller on impulse moves
- The slope of corrective moves getting steeper
- Candlestick bodies getting larger on corrective moves

THE SLOPE OF IMPULSE MOVES GETTING FLATTER

CANDLESTICK BODIES GETTING SMALLER ON IMPULSE MOVES



THE SLOPE OF CORRECTIVE MOVES GETTING STEEPER

CANDLESTICK BODIES GETTING LARGER ON CORRECTIVE MOVES

Here are a few examples to help you understand...

Example 1:

a - Impulse move heading higher. This looks normal in an uptrend.

b - Corrective move heading lower, but the candle's body size has increased compared to previous corrective moves. This is something unusual.

c - An impulse move which is short lived. A possible complex pullback setting up.

d - Corrective move that tested the previous low.

e - Impulse move going higher, which should lead to a resumption of trend.

f - False breakout. The corrective move has large bodied candles and is getting steeper. This doesn't look good.

g - A weak attempt by the bulls to regain control.

Overall:

The uptrend is getting weak. Support comes in around 175, which is a strong line of defense for the bulls.

I will look to go long or stay on the sidelines. No shorting at this point.

A break and close below 175 would be bearish with the completion of a head & shoulders pattern. If this happens, I'll look to short or remain on the sidelines.

EXAMPLE 2:

a - Impulse move heading lower with a huge spike down (possibly due to news event). Price continues trading towards the low.

b - Corrective pullback with small-bodied candles. This looks normal in a downtrend

c - Weak impulse move going lower. *Where did the sellers go?*

d - Strong corrective move going higher with large-bodied candles. The trend is possibly over and could transition into a range market.

e - Sellers came in and tried to push the price lower. If it breaks below the previous low, the trend could resume. But it couldn't.

f - Bulls taking control once more in an attempt to move towards the resistance area.

Overall:

Bulls and bears are in equilibrium at the moment as both bullish and bearish candles are of similar size.

I'll look to short or stay on the side. No longs at this point.

If price breaks above the resistance area at 0.6900, then I'll look for longs or will stay on the side.

EXAMPLE 3:

a - Impulse move heading higher which broke and closed above resistance. Candle bodies are large, showing strong bullish momentum. Expect the trend to continue.

b - False breakout as the price trades back into the range. Candle bodies are large, showing strong bearish momentum. It doesn't look good here. The last line of defense comes in at the 91.00 support area.

c - Weak attempt by the bulls to push the price higher. The small-bodied candles show lack of strength by the bulls.

d - Bears regain control and push price lower, breaking the 91.00 support (this is an impulse move lower). Large-bodied candles show signs of strength by the bears.

e - Weak attempt by the bulls to push the price higher. Again, it shows a lack of strength, with small-bodied candles and a flatter slope.

f - One bearish candle wiped out the gains of the last 14 candles, with previous support now turned resistance.

Overall:

The bears are clearly in control now, and I'm looking to short or stay on the sides. No longs for me at this point.

Does it make sense?

Great!

Then let's move on...

FORGET MEMORIZING CANDLESTICK PATTERNS, YOU ONLY NEED TO KNOW THESE 4 THINGS

They are:

1. Wick
2. Length of the wick
3. Size of the body
4. Close of the candle

WICK

The wick of the candle represents price rejection. If you see a longer wick, it represents greater price rejection.

Here's what I mean:

LENGTH OF THE WICK

In general...

When you see wicks "flying" all over your charts, you're probably in a "choppy" condition (usually in a range market).

And when have little to no wicks, you're probably in a "cleaner" condition (usually in a strong trending market).

SIZE OF THE CANDLE

The easiest way to identify momentum in the markets is to look at the size of the body.

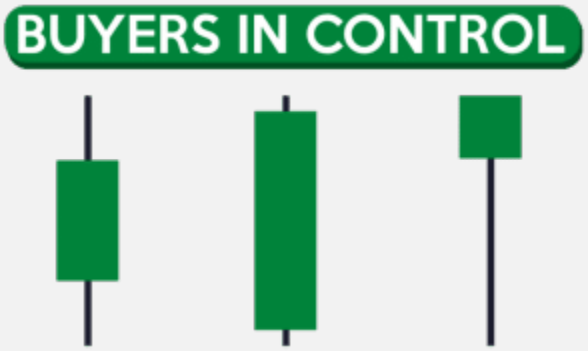
A large body shows greater momentum, and a small body shows a lack of momentum.

An example:

CLOSE OF THE BODY

To identify who's currently in control, you'd want to see where the candle closes.

If it closes near the highs, the bulls are in control.



If it closes near the middle, the market is undecided.

If it closes near the lows, the bears are in control.

So, are you pumped already?

Because you're going to learn something really cool...

ADVANCED CANDLESTICK KNOWLEDGE (THAT NOBODY TALKS ABOUT)

I used to get excited when I spotted a candlestick pattern that I memorized.

"Look, a shooting star! The market is heading lower for sure!"

And it rallied 300 points.

Now...

Instead of "copying and pasting" what individual candlestick means, I'll go deeper into it.

I'll explain to you how not to trade them, how to trade them, and other variations of it.

Here's what you'll learn:

- Pinbar
- Inside bar
- Rising three method
- Wide range of candles
- Narrow range candles

PINBAR

A Pinbar is a reversal pattern, which was first introduced by Victor Sperandeo in his book Trader Vic: Methods of a Wall Street Master

The key takeaway about this pattern is price rejection.

Bullish Pinbar - Small bodied candle with a long lower wick, showing rejection of lower prices.

Bearish Pinbar - Small bodied candle with a long upper wick, showing rejection of higher prices.

Now:

Just because you see a bearish Pinbar doesn't mean the price is going to trade lower.

In fact, it's usually just a retracement within a trend.

Here's what I mean:

Do not "blindly" go short when you see a bearish Pinbar or go long when you see a bullish Pinbar.

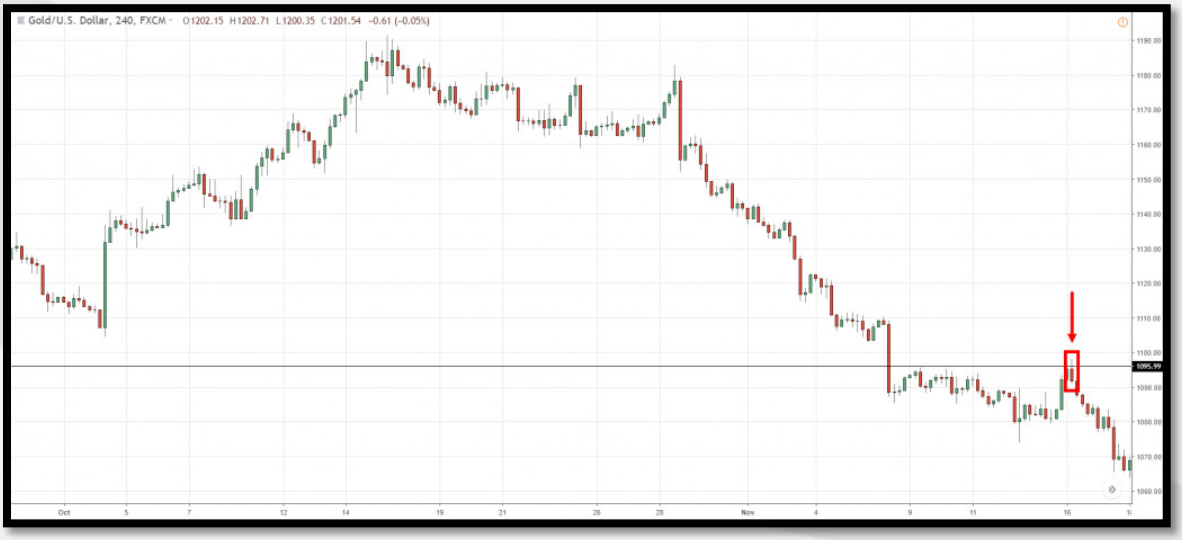
Chances are, it's a retracement within a trend.

Here's what you should do instead:

- In an uptrend, only trade a bullish Pinbar at an area of support
- In a downtrend, only trade a bearish Pinbar at an area of resistance

Following these simple rules, you'll greatly increase the odds of your trade working out.

Look at this:



Recall:

The Pinbar shows price rejection on the charts.

But, there is more than one way to show price rejection, and it may not come in the form of a Pinbar.

So...

...if you're only focusing on Pinbar trading setups, then you'll miss trading opportunities like these...

Euro Fx/U.S. Dollar, 1D, FXCM
Rejection of
higher prices

Australian Dollar/U.S. Dollar, 1D, FXCM
Rejection of
higher prices

U.S. Dollar/South African Rand, 1D, FXCM
Rejection of
lower prices

Watch this training video that explains why the Pinbar trading strategy is causing you to lose money.

In case you haven't realized...

Another variation of Pinbar is the Engulfing pattern.

If you think about it, the Pinbar is actually an Engulfing pattern on a shorter time frame.

Remember...

Price rejection can come in many forms. You should focus on the price, not the pattern.

INSIDE BAR

This can be both a continuation and reversal pattern (I'll focus on the continuation pattern).

The key takeaway about this pattern is low volatility. Thus, you can get an entry with tight stops on this pattern (and improve your risk to reward).

Inside bar - Small candle contained within the previous bar's highs and lows

How do you not trade it?

Most traders would trade the break of the Inside bar, hoping to capture a quick profit.

But...

In a choppy market, the lack of momentum usually results in many losses (so it's best to avoid choppy markets).

Here's an example:

The best Inside bar setups occur when:

- The price breaks out of a range with strong momentum
- It's a strong trending market
- It's trading in the direction of the trend

Here's what I mean...

Another variation of the Inside bar is coined the "Fakey," by Nial Fuller.

This is when the Inside bar breaks out in one direction, only to reverse and close in the opposite direction (otherwise known as a false breakout).

Here's a couple of examples:

U.S. Dollar/Japanese Yen, 1D, FXCM
O113.808 H113.988 L113.756 C113.787 −0.021 (−0.02%)

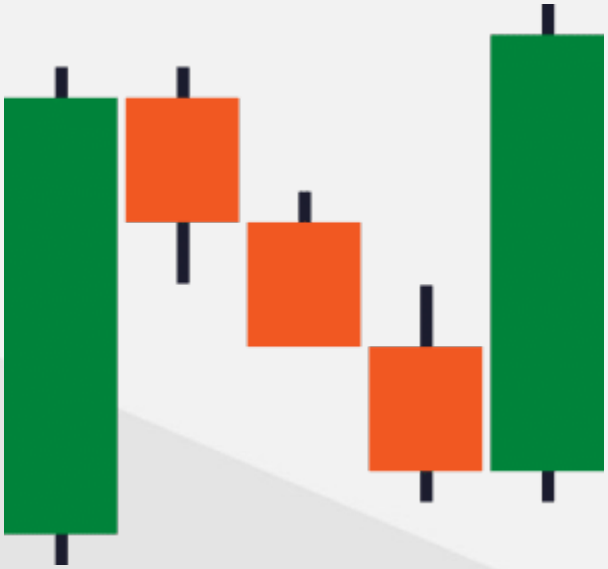
Moving on...

RISING THREE METHOD

This pattern was first introduced by Steve Nison in his book Japanese Candlestick Charting Techniques.

The main idea of this pattern is trend continuation.

Rising three method - This is a bullish trend continuation move, with three bearish candles acting as a retracement in an existing trend. Then a bullish candle closes higher, signaling the bulls are back in control.



Falling three method - This is a bearish trend continuation move, with three bullish candles acting as a retracement in an existing trend. Then a bearish candle closes lower, signaling the bears are back in control.

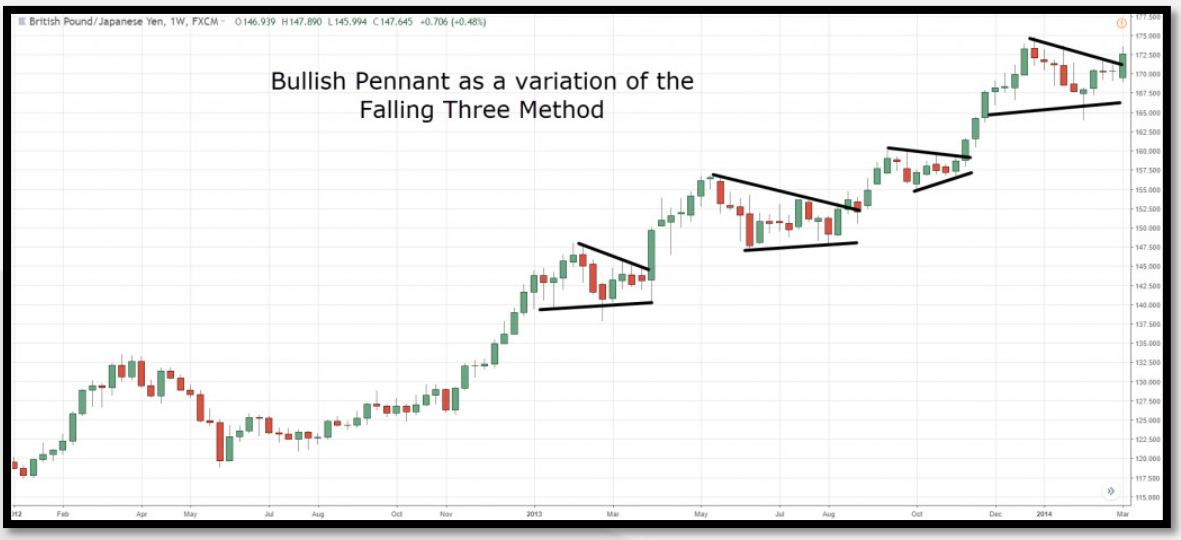
Here's the thing:

By waiting for this precise pattern to occur, you will not get many trading setups (following an exact 3 candles pullback).

So... what other patterns can you trade?

If you think about it, another variation of this pattern is the flag or pennant formation.

Here's what I mean:



Next...

WIDE RANGE OF CANDLES

Due to a strong imbalance of buying/selling pressure, candles would form a wide range.

This represents "hidden" Support & Resistance in the markets (otherwise known as Supply & Demand by Sam Seiden).

Here's what I mean:

There are traders who swear by Supply & Demand, and some who do just fine with Support & Resistance.

Again, you don't want to trade them in isolation, but instead, you want to use them with other technical tools that add confluence to your trades.

NARROW RANGE CANDLES

"If there is a sudden range expansion in a market that has been trading narrowly, human nature is to try to fade that price move. When you get range expansion, the market is sending you a very loud, clear signal that the market is getting ready to move in the direction of that expansion." - Paul Tudor Jones

You're wondering:

What does that mean?

Simply put, when you get a series of narrow range candles (volatility contraction), get ready for an explosive move. (These findings can be validated by the works of Adam Grimes, Tony Crabel, and Mark Minervini.)

Here are a few examples:

So, what's the best way to enter such trades?

You can look to trade the initial breakout or the pullback after the breakout.

The last thing you'd want to do is trade against the breakout.

A PRICE ACTION TRADING STRATEGY TO CAPTURE MOMENTUM AND RIDE TRENDS

Recall:

The inside bar is a small candle contained within the previous bar highs and lows (which represents indecision in the markets).

Due to its small-bodied candle, it's a powerful way to limit risk while capturing explosive moves in the markets.

INSIDE BAR TRADING STRATEGY

If the market is strongly trending lower, then check if it respects the 10 EMA.

If the market respects 10 EMA, then wait for an inside bar to form.

If an inside bar is formed, place a sell stop order below the previous bar with a stop loss above the high.

If the order is triggered, then exit your trade when price closes above 10 EMA.

Vice versa for uptrends.

Here are a few examples:

GUIDELINES:

- The best setup occurs when the market is trending strongly, or shortly after it breaks out of a long-term range
- Risk no more than 1% of your equity on each trade
- You can use 10 EMA to trail your stop loss

FURTHER CONSIDERATIONS TO ASK YOURSELF:

- Do you place your stop loss using the previous bar or the inside bar?
- Do you set your entry using the previous bar or the inside bar?
- Do you want to capture a swing or a trend?

***Disclaimer: I will not be responsible for any profits or losses resulting from using these trading strategies. Past performance is not an indication of future performance. Please do your own due diligence before risking your hard-earned money.*

FINAL WORDS FROM RAYNER

Congratulations! If you have made it to this point, you definitely have the price action trading spirit in you. I know I've provided you with a lot to think about in this guide, but you now have the knowledge to take the information and apply it into your trading. Here are a few final thoughts I'd like to share with you before I finish up.

HOW MUCH YOU SUCCEED IS ALL UP TO YOU

The thing about trading is that it doesn't care about your educational background.

You can be a first-class honors graduate or a school dropout, but if you fail to follow the rules of the market, it will take your money, regardless of your status and background.

But if you follow the rules of the market, then how much you can make is entirely up to you. You can trade 0.1 lot, 1 lot, or 10 lots, and your profits and losses are just a matter of a few more zeros behind.

ROME WASN'T BUILT IN A DAY

Trading is like learning a new skill. You need to be willing to put in time and effort to be proficient in it. There are countless lessons to learn from the markets and every mistake you learn is a step closer to profitable trading.

Most degree graduates spent 3 years in school studying. What about a trader acquiring a skill that could feed him or her for life? Don't think about the money just yet. Just focus on doing the right things one step at a time.

Some take 10 years before being profitable whereas some never figure it out and eventually give up. If you really want it bad enough, then persevere on and always look at the big picture: the chance to one day be a consistently profitable trader.

DON'T BE AFRAID TO ASK FOR HELP

There is absolutely no reason why you shouldn't ask for help when you need it.

Many people, including myself, are happy to help people out. You'd be surprised.

If you never ask, you will never know, right?

THANK YOU SO MUCH!

I hope you've enjoyed this guide as much as I loved writing it for you. I can't thank you enough for your continued support for TradingwithRayner and everything I do.

Now if you've enjoyed this trading guide, then I'm sure you'll love Pro Traders Edge.

This is where you get access to my market insights, weekly trade alerts, backtest research lab, private trading community, and much more.

Get Started Now

Cheers,

Rayner Teo